

AR22

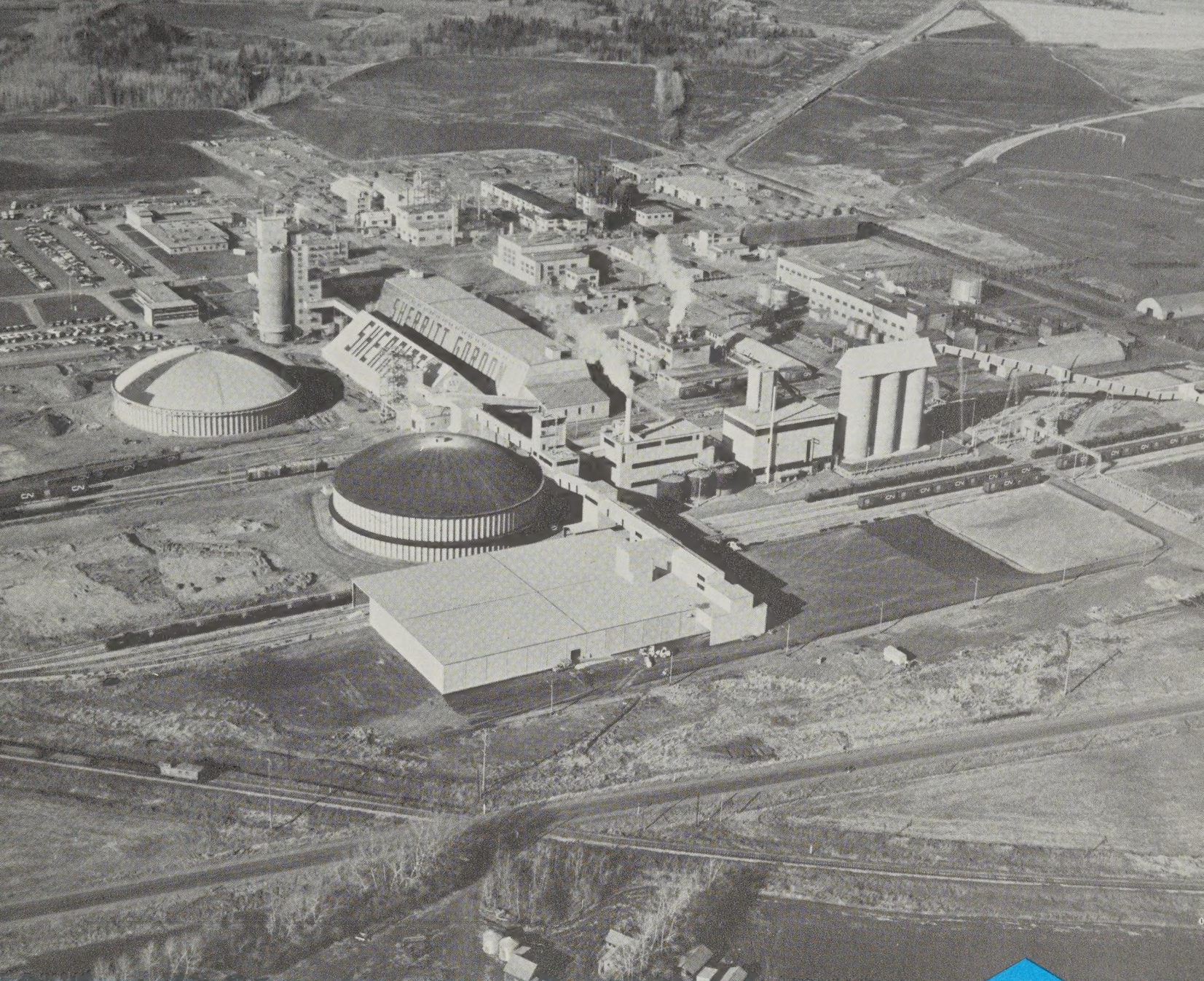
**ANNUAL
REPORT
1965**





Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Sher1171_1965



FORT SASKATCHEWAN PLANT



SHERRITT GORDON MINES LIMITED

Annual Report 1965

ANNUAL MEETING

The Annual Meeting of the Shareholders will be held on Thursday, the 28th day of April, 1966 at 2:30 o'clock in the afternoon, The Royal York Hotel (Manitoba Room), Toronto, Ontario.

SHERRITT GORDON MINES LIMITED

Directors

M. D. BANGHART	V. N. MACKIW
ELDON L. BROWN	PLATO MALOZEMOFF
W. E. P. DEROCHE	DAVID D. THOMAS
JOHN DRYBROUGH	J. E. THOMPSON
ALAN E. GALLIE	

Officers

ELDON L. BROWN,	<i>President and Managing Director</i>
JOHN DRYBROUGH,	<i>Vice-President</i>
W. H. YOUNG,	<i>Vice-President</i>
R. GORDON MACKAY,	<i>Vice-President and Secretary</i>
DAVID D. THOMAS,	<i>Treasurer</i>
BRUCE I. WATSON,	<i>Comptroller and Assistant Treasurer</i>

Auditors

DELOITTE, PLENDER, HASKINS & SELLS, TORONTO

Solicitors

BLAKE, CASSELS & GRAYDON, TORONTO

Transfer Agents

EASTERN & CHARTERED TRUST COMPANY, CANADA
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE, TORONTO
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

REPORT OF THE DIRECTORS

To the Shareholders,
Sherritt Gordon Mines Limited.

This report, including the audited financial statements for the year 1965, is submitted for your consideration.

HIGHLIGHTS

New all-time highs were recorded in

Copper sales

Production and sales of specialized forms of nickel

Production and sales of fertilizers

Gross revenue for both metals and fertilizers

Earnings of \$5,397,000 or 47.5¢ per share showed an increase of approximately 8% over those of 1964.

The tonnage of ore reserves at Lynn Lake was more than maintained.

Our fertilizer plant expansion program was practically completed.

Preparations for a program of underground development of our Fox Lake copper-zinc deposit have been started.

SALES

	1965	1964
Nickelpounds	27,184,549	28,557,660
Copperpounds	14,400,131	12,778,141
Cobaltpounds	487,440	621,535
Fertilizers tons	230,414	163,799

Sales of nickel were in excess of production, leaving us with a low inventory at year end. Late in the year we undertook to buy back, over a four-year period, 13,000,000 pounds of our nickel briquettes from the United States Government stockpile. These briquettes, which will be resold to our customers, should alleviate our temporary short-

age of nickel. Sales of special products, such as coinage blanks, special powders, etc. were at a record level.

New copper concentrate treatment and sales contracts were negotiated during the year. Under the terms of these new contracts our copper is available for sale almost two

months earlier; consequently 1965 copper sales cover almost fourteen months' production.

A high level of demand for fertilizers continued throughout 1965, with relatively stable prices. Our own fertilizer marketing group took over sales in the four western provinces on July 1st. As mentioned in the

report for the second quarter, we have contracted to supply Federal Grain Limited and Alberta Pacific Grain Ltd. with all their fertilizer requirements and United Grain Growers Limited with a substantial part of its requirements. As a result of these contracts we now have over one thousand well established marketing outlets in the three prairie provinces.

PRODUCTION

		1965	1964
Nickel	pounds	25,790,422	27,966,936
Copper	pounds	12,391,743	13,035,268
Cobalt	pounds	530,137	594,249
Fertilizers	tons	214,281	178,211

EARNINGS AND DIVIDENDS

	1965	1964
Revenue from sales	\$39,311,000	\$35,361,000
Profit before write-offs	9,829,000	8,996,000
Net profit	5,397,000	5,002,000
Net earnings per share	47.5¢	44.1¢
Dividends per share	20.0¢	20.0¢

Fertilizers accounted for 24% of sales revenue and approximately 45% of net profit for the year 1965.



LYNN LAKE OPERATIONS

A total of 1,363,583 tons of ore was mined and milled in 1965 as compared to 1,362,693 tons in 1964. The grade of the mill feed was below that of the previous year so that production of nickel in concentrate was down 6% and copper production down 5%.

Underground development work during the year amounted to 17,550 feet of drifting and cross-cutting, 5,784 feet of raising, 347 feet of shaft sinking and 122,423 feet of diamond drilling. In addition the 4' diameter drill hole was completed to the 3,000' level. This hole is now in use as a ventilation shaft for the O and N zones from the 2,000' level to surface and is being converted into a service winze from the 2,000' level to the 3,000' level.

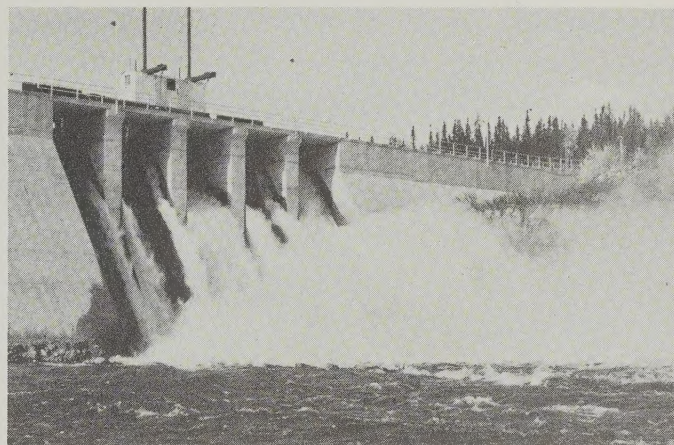
Developments in the O zone during the year were quite encouraging. An orebody of marginal grade has been outlined between the 2,000' and 2,600' horizons. A second orebody of better grade has been outlined by diamond drilling from the 3,000' level. This orebody apexes about 150 feet above the 3,000' level and is cut off by a major fault at a depth of from 400 feet to 500 feet below this level. The fault dips easterly at an angle of 45° with the lower side shifted down a vertical distance of approximately 600 feet. The faulted portion of the orebody has not yet been located.

Development of our system of hydraulic hoisting was continued during the summer months. A prototype installation will be made during 1966 for operation early in 1967. It will have a vertical lift of approximately 700 feet and will handle approximately 100 tons per hour.

The mill treated an average of 3,736 tons per calendar day throughout the year as compared to 3,723 tons in 1964. The grade

of the mill feed was below that of the previous year and a gradual increase in the pyrrhotite content of the ore made it difficult to maintain the grade of the nickel concentrate. The capacity of the pyrrhotite regrind circuit is being increased to overcome this problem.

Our power plants on the Laurie River operated satisfactorily throughout the year. Ample precipitation during the year resulted in full storage reservoirs at freeze-up.



LAURIE RIVER POWER — NO. 2 DAM

LYNN LAKE ORE RESERVE

As a result of developments in the O zone, sufficient new ore was found to replace the tonnage mined out during the year. The ore reserve at the end of the year, calculated on the same basis as in previous years, amounted to 11,116,000 tons averaging 0.96% nickel and 0.56% copper, as compared to 11,012,000 tons averaging 0.98% nickel and 0.59% copper at the end of 1964.

Since 1962 the grade of the ore milled has been consistently below the grade of the ore reserve. This is due to dilution by more or less barren rock scaling off the walls of the stopes. When the bulk of the mill feed was coming from above the 1,000' horizon dilution was negligible. Now that it is coming from the block between the 1,000' and 2,000' horizons dilution has become a significant factor

and as we go deeper it will necessitate a change from our present mining method to one that will provide support for the walls. In order to report an ore reserve tonnage and grade more in line with the anticipated mine production we have recalculated the ore reserve making an allowance in each orebody for the expected tonnage of dilution. This recalculated ore reserve amounts to 12,600,000 tons averaging 0.84% nickel and 0.49% copper.

It should be pointed out that this reserve is calculated on the basis of current costs and the current price of nickel. Cost increases could eliminate some of the material now included in the reserve while an increase in the price of nickel could result in the addition of material now considered too low grade to be profitable.

OUTSIDE EXPLORATION

Six diamond drill holes were completed on our Fox Lake copper-zinc deposit. Three of these were drilled to cut the ore zone at the 1,400' horizon, one to the 2,000' horizon and one to the 2,500' horizon. The sixth hole was drilled on the shaft site to investigate rock conditions to a depth of 2,000 feet.

The surface drilling indicates an ore reserve of 12,269,000 tons averaging 1.74% copper and 2.35% zinc. In addition there is a substantial tonnage of massive pyrite in the walls of the deposit carrying 0.41% copper and 2.38% zinc.

An all-weather road has been built from Lynn Lake to the Fox Lake property and a plant site is being cleared. The mining plant from the EL mine will be moved to the Fox Lake property early in 1966 and sinking a five-compartment shaft should start in the early summer. Power for sinking will be developed by diesels.

A number of holes were drilled to investigate a copper-zinc deposit on Laurie Lake some nine miles to the west of our Fox Lake deposit. The deposit was tested to a depth of 1,000 feet but the grade is too low to be economic.

Our airborne geophysical outfit did a normal amount of flying during the year, chiefly in northeastern Saskatchewan, and a great many anomalies were located. Some of these were checked by ground geophysics and diamond drilling but nothing of economic interest was encountered.

FORT SASKATCHEWAN

The metals plant operated continuously throughout the year except for the annual maintenance and holiday shutdown in July. Nickel production was 8% below that of the previous year, the reduction being due largely to the recycle of materials, such as edge trimmings and coinage webbing from the rolling mill and coinage plant, to the refinery. Cobalt production was off 11% from that of 1964 due to a time lag of several months between the exhaustion of the supply of cobalt-bearing calcines which we purchased



FIRST SHIPMENT OF AMMONIUM PHOSPHATE FERTILIZER, JULY 1965

several years ago from the United States stockpile and the start-up of our new plant for the treatment of high-temperature alloy grindings.

The powder rolling and coinage plant operated at capacity throughout the year. Coinage production in the form of blanks for the Canadian 5¢ piece and the South African 5¢ and 50¢ pieces amounted to 1,616,000 lbs., an increase of almost 70% over the previous year. A further expansion of the plant, which will bring the capacity up to 3,000,000 lbs. of blanks per year, is now in progress.

In connection with coinage it might be mentioned that while we did not supply the blanks, we do have a contract to supply nickel metal to the Australian Mint for use in their new cupro nickel coins.

Fertilizer production was 20% higher than that of 1964. The ammonium sulphate and urea plants operated throughout the year except for the annual July shutdown. The ammonium phosphate plant started production the middle of July and was running at the rated capacity by the middle of September. The expansion of the urea plant was completed on schedule at the end of September but a shortage of ammonia made it impossible to make use of the expanded capacity.

The ammonia plant expansion reached the start-up stage on schedule in the middle of November. However, shortly after the plant started up trouble developed in a high pressure centrifugal air compressor which was designed to supply all the air required by the ammonia plant. Our mechanical crew displayed great ingenuity in improvising an air supply to keep the ammonia plant operating at reduced capacity. Several additional new items of equipment failed after short periods of service and had to be repaired or replaced. Capacity operation has not yet been achieved

but solutions to the various difficulties appear to be in hand.

The major expansion of our fertilizer production plants has necessitated an expansion of auxiliary facilities such as water supply, electric power transmission, roads, trackage, sewer lines, fire protection and office accommodation. Improved systems of communication, accounting and traffic control have also been introduced to cope with the increasing complexity of the operations of the Metal and Chemical Division. Automatic analytical methods are being developed for process control.



National Film Board
PURE NICKEL COIN BLANKS FOR THE CANADIAN 5¢ PIECE

Due to the troubles in the ammonia plant the total fertilizer plant expansion program had not been completed by year end, but in spite of these setbacks it appears that the total cost of the new facilities will be within our original estimate.

RESEARCH AND DEVELOPMENT

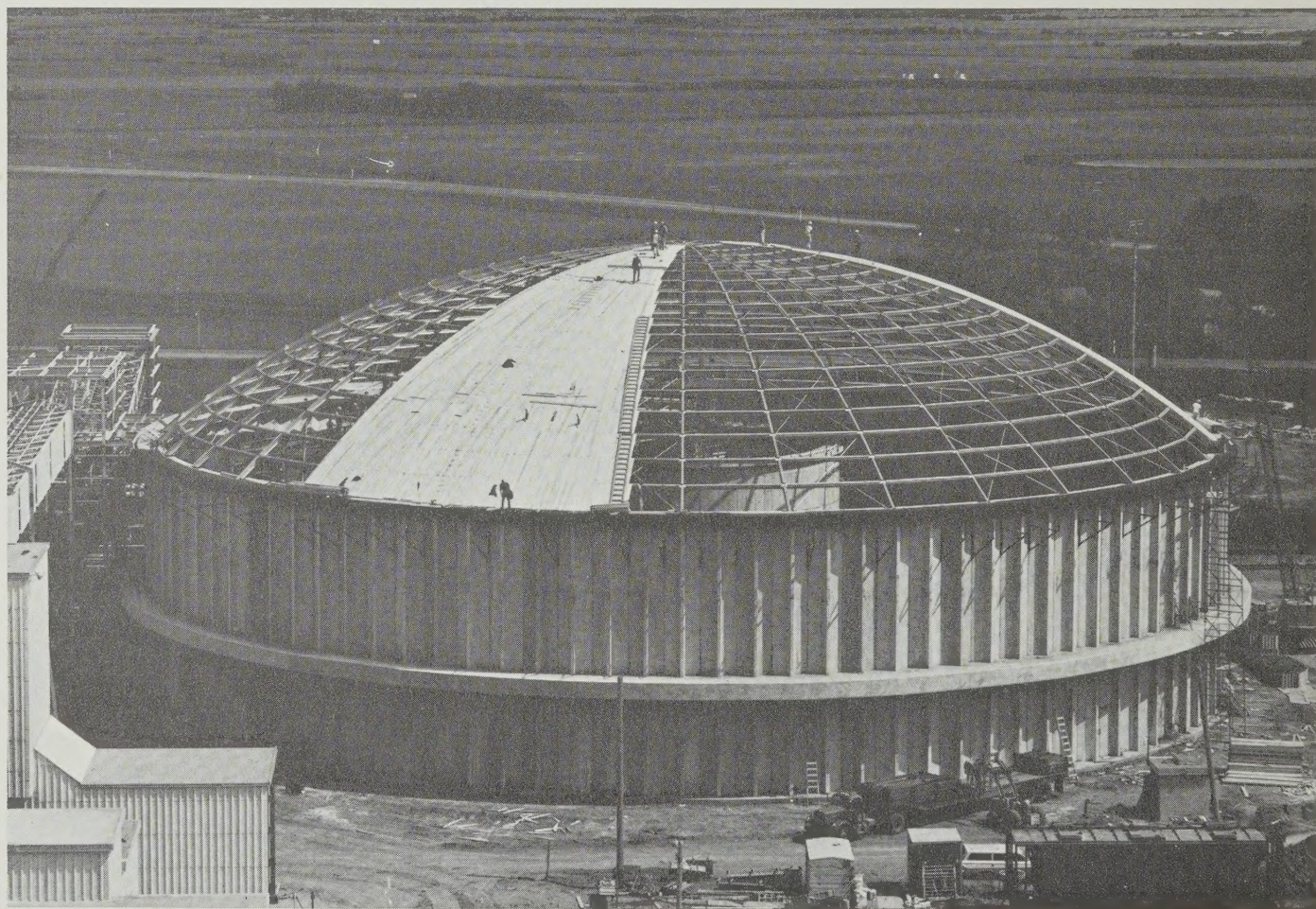
Research work on the development of dispersion-strengthened nickel and nickel alloys, which was carried on throughout the year under the shared-cost grant from the Department of Defence Production, produced materials with excellent high-temperature strength and oxidation resistance. A contract for the extension of this work through 1967 has been made with the Defence Research Board, under the terms of which all costs in connection with the work will be borne by the Canadian Government and the United States Air Force.

Work on the preparation of special powders for use in nickel cadmium batteries, sponsored by the National Research Council of Canada, was carried on throughout the year, and will be completed early in 1966.

The increased world demand and resulting substantial increase in the price of sulphur has renewed interest in our experimental process for the recovery of elemental sulphur from pyrite. A substantial amount of laboratory scale work was completed during the year and it is anticipated that the process will be ready for piloting toward the end of 1966.

A licensing agreement has been negotiated with Outokumpu Oy in Finland for the use of our process for the recovery of cobalt. A commercial plant is now under construction and the initial instalment on a paid-up royalty has been received.

A licensing agreement has also been negotiated with The Bunker Hill Company in the United States for the use of our lead treatment process. A pilot plant is now being built by the licensee.



50,000-TON FERTILIZER STORAGE BUILDING DURING CONSTRUCTION

CAPITAL EXPENDITURES

The following is a summary of 1965 capital expenditures:

Lynn Lake

Improvements and additions to plant and townsite	\$ 363,000
Diamond drilling, road construction and other development at Fox Lake property	343,000

Fort Saskatchewan

Fertilizer expansion	15,489,000
Improvements and additions to refinery and chemical plants	609,000
Additions to rolling mill and coinage plant	608,000
Additions to research and development facilities	128,000
Patents	41,000

Total	<u>\$17,581,000</u>
-------------	---------------------

PERSONNEL

The major expansion of our fertilizer production facilities necessitated a substantial increase in the number of employees at Fort Saskatchewan. At the end of the year the Company had a total of 1,650 employees as compared to 1,464 at the end of 1964. The distribution of these employees, with comparable figures for the previous year, is as follows:

	1965	1964
Lynn Lake	673	696
Fort Saskatchewan		
Metal and Chemical	789	592
Powder rolling and coinage ..	66	64
Research and Development ..	82	79
Executive Office—Toronto	15	14
Marketing Division		
Metals—Toronto	15	15
Fertilizers—Edmonton	10	4

At Lynn Lake, under the terms of a contract with Local 5757, United Steelworkers of America, which runs to June 28, 1966, a general wage increase of 2½% became effective on October 1.

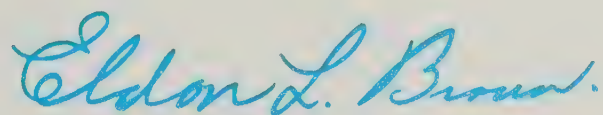
At Fort Saskatchewan, under the terms of a contract with Local 530 of International Chemical Workers' Union, which runs to April 30, 1967, a general wage increase of 7¢ per hour became effective July 1.

GENERAL

The outlook for the year 1966 appears to be reasonably good. The current demand for metals is strong and should continue throughout most of the year. No increase in the price of nickel is anticipated, consequently rising costs will reduce the profit margin on this product. The demand for fertilizers is also strong and we expect to sell everything we can produce. The great expansion of fertilizer production facilities in western Canada during the past eighteen months has resulted in some price cutting which will tend to reduce the overall price of fertilizers in this area.

Once again the Directors wish to express their appreciation of the loyal and efficient services rendered throughout the year by all the Company's employees.

On behalf of the Board,



President and Managing Director.

Toronto, Ontario, February 22, 1966.

SHERRITT GORDON

Incorporated under The

BALANCE SHEET

(with comparative

ASSETS

CURRENT	1965	1964
Cash	\$ 2,417,664	\$ 3,961,090
Accounts receivable — trade	9,901,189	4,510,532
— other	403,528	220,455
Inventory of raw materials, materials in process and finished products—finished metals sold under contract valued at net realizable value, other materials and products valued at lower of average cost and net realizable value	8,565,572	8,992,033
Operating supplies, spare parts and other materials valued at average cost	2,723,104	2,467,219
Insurance and other prepaid items	74,744	63,044
	<u>24,085,801</u>	<u>20,214,373</u>
 NON-CURRENT		
Housing loans due from employees	698,280	784,199
 PROPERTY, PLANT AND EQUIPMENT, at cost		
Mine — Lynn Lake	16,566,463	16,343,977
Power — Laurie River	8,572,952	8,550,990
Metal and Chemical — Fort Saskatchewan (note 2)	60,275,152	43,459,389
	85,414,567	68,354,356
Less accumulated depreciation	30,859,801	27,218,430
	54,554,766	41,135,926
Mining claims less amounts written off	40,229	45,914
	<u>54,594,995</u>	<u>41,181,840</u>
 DEFERRED DEVELOPMENT EXPENDITURES		
Unamortized mine development and metallurgical research ..	8,278,899	8,417,129
 OTHER		
Deferred development — Fox Lake property	561,742	218,444
Investment in subsidiary and other companies at cost less amounts written off (note 3)	137,500	141,204
Patents at cost less amounts written off	868,227	930,733
	1,567,469	1,290,381
	<u>\$89,225,444</u>	<u>\$71,887,922</u>

MINES LIMITED

Corporations Act, Ontario

DECEMBER 31, 1965

(figures for 1964)

LIABILITIES

CURRENT	1965	1964
Accounts payable and accrued charges	\$ 7,792,329	\$ 4,276,930
Mining royalty and income taxes payable (note 4)	39,147	17,163
4¾ % First Mortgage Bonds — sinking fund payment due May 1, 1966 (1,956,700 U.S.)	2,104,064	2,101,618
6% unsecured note payable December 31, 1966 (note 6) (1,650,000 U.S.)	1,774,266	—
Canadian National Railways due May 1, 1966 (note 5)	350,000	350,000
Unclaimed dividends	97,666	96,612
	<u>12,157,472</u>	<u>6,842,323</u>
NON-CURRENT		
6% unsecured note payable December 31, 1967 (note 6) (1,350,000 U.S.)	<u>1,451,250</u>	—
FIRST MORTGAGE BONDS		
4¾ % Sinking Fund Bonds		
due May 1, 1968 (5,870,100 U.S.)	5,749,732	7,666,309
Less sinking fund payment due May 1, 1966 (1,956,700 U.S.)	1,916,578	1,916,577
	<u>(3,913,400 U.S.)</u>	<u>5,749,732</u>
5½ % Sinking Fund Bonds		
due December 31, 1972 (note 6) (15,900,000 U.S.)	17,109,672	7,829,250
	<u>(19,813,400 U.S.)</u>	<u>13,578,982</u>
CAPITAL AND SURPLUS		
Capital (note 7)		
Authorized		
12,000,000 shares par value \$1.00 per share		
Issued and fully paid		
11,351,318 shares	11,351,318	11,333,318
Contributed surplus		
Net premium on sale of shares	10,496,927	10,433,927
	<u>21,848,245</u>	<u>21,767,245</u>
Earned surplus	32,825,651	29,699,372
	<u>54,673,896</u>	<u>51,466,617</u>
Approved by the Board:		
ELDON L. BROWN, Director		
DAVID D. THOMAS, Director		
	<u>\$89,225,444</u>	<u>\$71,887,922</u>

STATEMENT OF PROFIT AND LOSS

for the year ended December 31, 1965 (with comparative figures for 1964)

	1965	1964
REVENUE FROM SALES.....	\$39,311,146	\$35,361,286
Cost of sales	27,242,206	24,378,085
GROSS PROFIT FROM SALES	12,068,940	10,983,201
Metallurgical research expense	573,922	566,835
Outside exploration expenditures	167,570	103,803
Administrative and selling expense	982,110	745,680
	1,723,602	1,416,318
OPERATING PROFIT	10,345,338	9,566,883
Net interest expense	431,060	548,725
Mining royalty and income taxes (note 4)	85,000	22,000
	516,060	570,725
PROFIT BEFORE WRITE-OFFS AND OTHER CHARGES.....	9,829,278	8,996,158
Depreciation and other write-offs	4,332,092	3,894,719
	5,497,186	5,101,439
Other non-operating charges — net	100,643	99,828
NET PROFIT FOR THE YEAR TRANSFERRED TO EARNED SURPLUS	\$ 5,396,543	\$ 5,001,611

STATEMENT OF EARNED SURPLUS

for the year ended December 31, 1965 (with comparative figures for 1964)

	1965	1964
BALANCE AT BEGINNING OF THE YEAR.....	\$29,699,372	\$26,964,425
Net profit for the year	5,396,543	5,001,611
	35,095,915	31,966,036
Dividends paid — 20¢ per share	2,270,264	2,266,664
BALANCE AT END OF THE YEAR.....	\$32,825,651	\$29,699,372

The accompanying notes are an integral part of the financial statements.

STATEMENT OF SOURCE AND USE OF FUNDS

for the year ended December 31, 1965 (with comparative figures for 1964)

FUNDS WERE OBTAINED FROM	1965	1964
Operations for the year		
Net profit	\$ 5,396,543	\$ 5,001,611
Depreciation and other amounts deducted in arriving at net profit but which did not involve an outlay of funds	4,310,083	4,175,123
	<u>9,706,626</u>	<u>9,176,734</u>
Issue of 5½% First Mortgage Sinking Fund Bonds due 1972	9,280,422	7,829,250
Issue of 6% unsecured notes payable 1966 and 1967	3,225,000	—
Issue of capital stock	81,000	—
Net proceeds from investment transactions	4,207	31,010
	<u>22,297,255</u>	<u>17,036,994</u>
Decrease in working capital	1,443,721	—
	<u>\$23,740,976</u>	<u>\$17,036,994</u>
 FUNDS WERE USED FOR		
Expenditures on capital and deferred assets		
Lynn Lake mine plant and development costs including power, townsite facilities and employee housing	\$ 363,204	\$ 724,984
Fort Saskatchewan metal and chemical plants		
Fertilizer expansion	15,488,730	2,421,505
Other facilities including rolling mill expansion and research	1,345,472	802,374
Acquisition of patents	40,672	32,334
Deferred expenditures on development of Fox Lake property	343,298	106,965
	<u>17,581,376</u>	<u>4,088,162</u>
Reduction in long-term indebtedness	3,889,336	5,322,943
Dividends paid	2,270,264	2,266,664
	<u>23,740,976</u>	<u>11,677,769</u>
Increase in working capital	—	5,359,225
	<u>\$23,740,976</u>	<u>\$17,036,994</u>
 WORKING CAPITAL		
Balance at beginning of the year	\$13,372,050	\$ 8,012,825
Less decrease (increase) during the year	1,443,721	(5,359,225)
Balance at end of the year	<u>\$11,928,329</u>	<u>\$13,372,050</u>

The accompanying notes are an integral part of the financial statements.

Sherritt Gordon Mines Limited

NOTES TO FINANCIAL STATEMENTS

1. **CONVERSION OF FOREIGN CURRENCIES.** Transactions in foreign currencies have been converted into Canadian dollars at rates prevailing at the time of such transactions, except that current assets and current liabilities have been converted at the quoted rate of exchange at December 31, 1965.

2. **FERTILIZER EXPANSION.** To December 31, 1965, approximately \$17,900,000, excluding working capital, had been expended on a major expansion of fertilizer facilities at Fort Saskatchewan, Alberta, construction of which commenced in 1964. At December 31, 1965 the estimated cost of completing this construction program is \$1,700,000. (See note 6 for details of financing.)

3. **SUBSIDIARY COMPANIES.** It is not the policy of the Company to consolidate the accounts of subsidiary companies. All profits and losses of subsidiary companies have been reflected in the financial statements.

4. **INCOME TAXES.** As permitted under the Income Tax Act the Company has claimed for tax purposes to December 31, 1965, approximately \$23,400,000 more depreciation and deferred development expenditures than it has written off on the financial statements. This practice has resulted in lower income taxes in this and preceding years but the \$23,400,000 will not be available for deduction from income for tax purposes in future years.

5. **CANADIAN NATIONAL RAILWAYS.** An agreement with Canadian National Railways with respect to the extension of the railroad from Sherridon to Lynn Lake provides for an annual payment to Canadian National Railways of \$350,000 for a period of 20 years ending on May 1, 1974. The agreement also provides for a refund to the Company calculated at \$2.65 per ton on all outgoing shipments in excess of 1,880,000 tons, to a maximum repayment of \$5,000,000. To December 31, 1965 the cumulative

total of all outgoing shipments amounted to approximately 1,260,000 tons.

6. **NEW FINANCING.** Arrangements were made in 1964 to finance the fertilizer expansion (note 2) by the issue of \$17,800,000 U.S. 5½% First Mortgage Sinking Fund Bonds due 1972 and by a \$3,000,000 U.S. 6% unsecured loan. At December 31, 1965 \$15,900,000 U.S. 1972 Bonds and \$3,000,000 U.S. 6% unsecured notes had been issued. The remaining \$1,900,000 U.S. 1972 Bonds will be issued in the first quarter of 1966.

The 1972 Bonds are to be retired by sinking fund payments as follows:

\$1,200,000 U.S.—December 31, 1967

\$2,500,000 U.S.—December 31, 1968

\$3,525,000 U.S.—December 31, 1969 to 1972 inclusive

The unsecured notes are to mature as follows:

\$1,650,000 U.S.—December 31, 1966

\$1,350,000 U.S.—December 31, 1967

Under the Indenture securing the First Mortgage Bonds the Company may not make a dividend distribution which would reduce working capital below \$9,000,000.

7. **CAPITAL.** During 1965, 18,000 shares of capital stock were issued at a price of \$4.50 per share under a stock option granted to an employee in 1961.

The following options to purchase shares of the unissued capital stock of the Company were outstanding at December 31, 1965:

(a) A further 12,000 shares at a price of \$4.50 per share under the same employee option agreement which expires on July 20, 1966.

(b) Share Purchase Warrants issued in 1956 to the Company's Bondholders entitling the holders to purchase 30,082 shares at a price of \$6.00 per share on or before May 1, 1968.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SHERRITT GORDON MINES LIMITED:

We have examined the balance sheet of Sherritt Gordon Mines Limited as at December 31, 1965 and the statements of profit and loss and earned surplus and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and earned surplus present fairly the financial position of the Company as at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year; and the accompanying statement of source and use of funds presents fairly the information shown therein.

Toronto, Ontario, February 21, 1966.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants

TEN-YEAR RECORD 1956-1965

PRODUCTION

Year	Metal Production — Pounds				Fertilizer Production Tons
	Total Nickel	Toll Nickel Included	Copper	Cobalt	
1956	19,392,514	152,866	9,304,999	107,414	73,440
1957	22,487,147	2,419,780	9,495,989	172,053	96,422
1958	25,006,584	2,793,285	9,890,745	274,365	108,709
1959	25,097,375	284,645	10,341,365	314,343	117,878
1960	30,969,231	7,710,893	10,990,069	310,410	139,959
1961	26,480,386	4,474,811	11,251,881	191,043	137,761
1962	27,203,747	2,890,124	10,530,650	608,580	130,425
1963	23,930,561	2,959,379	11,977,903	607,511	166,828
1964	28,207,702	240,766	13,035,268	594,249	178,211
1965	25,790,422		12,391,743	530,137	214,281

During the year 1956 an additional 3,779,399 lbs. of nickel were produced and sold in the form of concentrate.

PROFITS AND DIVIDENDS

Year	Revenue from Sales	Operating Profit	Earnings	Earnings Per Share	Dividends	Dividends Per Share
1956	19,802,090	9,566,853	5,609,797	49.5¢		
1957	20,658,006	9,030,724	5,475,625	48.3¢		
1958	20,644,641	6,916,878	3,234,041	28.5¢		
1959	20,156,171	5,925,593	2,370,320	20.9¢		
1960	24,987,704	7,806,918	3,751,835	33.1¢	2,833,329	25¢
1961	23,947,113	8,025,942	3,906,730	34.5¢	3,399,995	30¢
1962	23,646,665	5,723,158	2,048,159	18.1¢	1,699,998	15¢
1963	30,382,084	7,908,324	2,710,539	23.9¢	2,266,664	20¢
1964	35,361,286	9,566,883	5,001,611	44.1¢	2,266,664	20¢
1965	39,311,146	10,345,338	5,396,543	47.5¢	2,270,264	20¢

ORE PRODUCTION AND RESERVES

Year	LYNN LAKE				FOX LAKE		
	Tons Ore Milled	Tons	Ore Reserve % Nickel	% Copper	Tons	Ore Reserve % Copper	% Zinc
1956	749,506	13,070,000	1.11	0.58			
1957	833,443	13,640,000	1.06	0.56			
1958	892,423	14,600,000	0.90	0.48			
1959	988,541	14,158,000	0.96	0.54			
1960	1,151,419	14,300,000	0.92	0.53			
1961	1,219,157	14,000,000	0.92	0.54	4,600,000	1.78	2.82
1962	1,262,502	14,000,000	0.94	0.55	4,600,000	1.78	2.82
1963	1,346,192	11,916,000	0.96	0.58	4,600,000	1.78	2.82
1964	1,362,693	11,012,000	0.98	0.59	12,100,000	1.72	2.28
1965	1,363,583	12,600,000	0.84	0.49	12,269,000	1.74	2.35

For the year 1965 the Lynn Lake ore reserve includes an allowance for dilution.

SHERRITT GORDON MINES LIMITED

MINING AND MILLING DIVISION

LYNN LAKE, MANITOBA

PETER A. CAIN, *Manager*

J. C. FOLINSBEE, *Mine Superintendent*

J. A. MACLELLAN, *Mill Superintendent*

G. D. RUTTAN, *Exploration and Geology*

METAL AND CHEMICAL DIVISION

FORT SASKATCHEWAN, ALBERTA

W. H. YOUNG, *Manager*

C. A. HAMES, *Assistant Manager*

RESEARCH AND DEVELOPMENT DIVISION

FORT SASKATCHEWAN, ALBERTA

V. N. MACKIW, *Director*

T. W. BENZ, *Assistant Director*

D. J. I. EVANS, *Assistant Director*

MARKETING DIVISION

25 KING STREET WEST, TORONTO, ONTARIO

ALAN E. GALLIE, *Director*

R. F. PEARCE, *Manager — Metallurgical Sales*

J. A. FRASER, *Manager — Fertilizer Sales*

1 THORNTON COURT, EDMONTON, ALBERTA

EXECUTIVE OFFICE

25 KING STREET WEST, TORONTO, ONTARIO

